

AMENDED IN ASSEMBLY JULY 1, 1997

AMENDED IN SENATE APRIL 14, 1997

SENATE BILL

No. 1291

Introduced by Senator Calderon

February 28, 1997

An act to amend Sections 1799.90, 1799.91, 2985.7, ~~and 2986.13~~ of 2986.3, 2986.4, 2986.13, and 2989.2 of, to add Section 2987 to, to repeal Section 2986.2 of, and to repeal and add Sections 2985.71 and 2985.8 of, the Civil Code, relating to motor vehicle leases.

LEGISLATIVE COUNSEL'S DIGEST

SB 1291, as amended, Calderon. Motor vehicle leases.

(1) Existing law requires a creditor, as defined, who obtains the signature of more than one person on a consumer credit contract, as defined, to deliver a prescribed notice to each person who does not in fact receive any of the money, property, or services which are the subject matter of the contract, except as specified.

This bill would revise the definition of a consumer credit contract to include a lease contract for a motor vehicle, as specified, and would require a creditor who is a lessor under such a lease contract to provide a prescribed notice in lieu of the above described notice.

(2) Existing law provides that if any solicitation to enter into a lease contract for a motor vehicle includes a statement of the amount of payment, the number of payments, or that any capitalized cost reduction, any or no downpayment, or

other payment is required at the inception of the lease, the solicitation shall also include a specified statement.

This bill would delete this provision and require a solicitation to enter a lease contract for a motor vehicle that includes a statement as to the amount of any payment or a statement of any capitalized cost reduction or other payment required, or that no *capitalized cost reduction or other* payment is required, to state prescribed items.

(3) Existing law specifies requirements for contracts for leases of motor vehicles, including the requirement that the contract contain prescribed information regarding the motor vehicle and the terms of the lease.

This bill would revise and recast these provisions to, among other things, require the contract to contain all disclosures prescribed by specified federal regulations. *The bill also would provide that a lessee has the right to terminate a lease at any time prior to the scheduled expiration date, as specified. It also would make related changes.*

(4) Existing law relating to *paragraphs* (2) and (3) provides that it is a misdemeanor for a person to knowingly and willfully violate those provisions. By changing the definition of a crime, this bill would impose a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: yes.

The people of the State of California do enact as follows:

1 SECTION 1. Section 1799.90 of the Civil Code is
2 amended to read:

3 1799.90. As used in this title:

4 (a) "Consumer credit contract" means any of the
5 following obligations to pay money on a deferred
6 payment basis, where the money, property, services or

1 other consideration which is the subject matter of the
2 contract is primarily for personal, family or household
3 purposes:

4 (1) Retail installment contracts, as defined in Section
5 1802.6.

6 (2) Retail installment accounts, as defined in Section
7 1802.7.

8 (3) Conditional sales contracts, as defined in Section
9 2981.

10 (4) Loans or extensions of credit secured by other than
11 real property, or unsecured, for use primarily for
12 personal, family or household purposes.

13 (5) Loans or extensions of credit for use primarily for
14 personal, family or household purposes where such loans
15 or extensions of credit are subject to the provisions of
16 Article 7 (commencing with Section 10240) of Chapter 3
17 of Part I of Division 4 of the Business and Professions
18 Code, Division 7 (commencing with Section 18000),
19 Division 9 (commencing with Section 22000), or Division
20 10 (commencing with Section 24000) of the Financial
21 Code, whether secured by real property or otherwise.

22 (6) Lease contracts, as defined in Section 2985.7.

23 (b) "Creditor" means an individual, partnership,
24 corporation, association or other entity, however
25 designated, who enters into or arranges for consumer
26 credit contracts in the ordinary course of business.

27 SEC. 2. Section 1799.91 of the Civil Code is amended
28 to read:

29 1799.91. (a) Unless the persons are married to each
30 other, each creditor who obtains the signature of more
31 than one person on a consumer credit contract shall
32 deliver to each person who does not in fact receive any
33 of the money, property, or services which are the subject
34 matter of the consumer credit contract, prior to that
35 person's becoming obligated on the consumer credit
36 contract, a notice in English and Spanish in at least
37 10-point type as follows:
38

1 NOTICE TO COSIGNER (Traducción en Inglés Se
2 Requiere Por La Ley)

3
4 You are being asked to guarantee this debt. Think
5 carefully before you do. If the borrower doesn't pay the
6 debt, you will have to. Be sure you can afford to pay if you
7 have to, and that you want to accept this responsibility.

8 You may have to pay up to the full amount of the debt
9 if the borrower does not pay. You may also have to pay
10 late fees or collection costs, which increase this amount.

11 The creditor can collect this debt from you without first
12 trying to collect from the borrower. The creditor can use
13 the same collection methods against you that can be used
14 against the borrower, such as suing you, garnishing your
15 wages, etc. If this debt is ever in default, that fact may
16 become a part of *your* credit record.

17 This notice is not the contract that makes you liable for
18 the debt.

19
20 AVISO PARA EL FIADOR (Spanish Translation
21 Required By Law)

22
23 Se le está pidiendo que garantice esta deuda. Piénselo
24 con cuidado antes de ponerse de acuerdo. Si la persona
25 que ha pedido este préstamo no paga la deuda, usted
26 tendrá que pagarla. Esté seguro de que usted podrá pagar
27 si sea obligado a pagarla y de que usted desea aceptar la
28 responsabilidad.

29 Si la persona que ha pedido el préstamo no paga la
30 deuda, es posible que usted tenga que pagar la suma total
31 de la deuda, mas los cargos por tardarse en el pago o el
32 costo de cobranza, lo cual aumenta el total de esta suma.

33 El acreedor (financiero) puede cobrarle a usted sin,
34 primeramente, tratar de cobrarle al deudor. Los mismos
35 metodos de cobranza que pueden usarse contra el
36 deudor, podran usarse contra usted, tales como presentar
37 una demanda en corte, quitar parte de su sueldo, etc. Si
38 alguna vez no se cumpla con la obligación de pagar esta
39 deuda, se puede incluir esa información en la historia de
40 credito de usted.

1 Este aviso no es el contrato mismo en que se le echa a
2 usted la responsabilidad de la deuda.

3
4 (b) Whenever notice is required to be given under
5 subdivision (a) or (d) and the consumer credit contract
6 is written in a language other than English or Spanish, the
7 creditor shall deliver the notice as required in subdivision
8 (a) or (d) in English and, in addition to or in lieu of
9 Spanish, in the language in which the consumer contract
10 is written.

11 (c) The requirements of subdivisions (a) and (b) do
12 not apply to a creditor offering or extending open-end
13 credit, as defined in Regulation Z, to joint applicants if all
14 of the following conditions are satisfied:

15 (1) The application or agreement signed by each
16 applicant clearly and conspicuously discloses that after
17 credit approval each applicant shall have the right to use
18 the open-end credit plan to the extent of any limit set by
19 the creditor and may be liable for all amounts extended
20 under the plan to any joint applicant.

21 (2) After credit approval, the creditor issues for the
22 use of each applicant any credit device such as a credit
23 card which may be used to obtain credit under the
24 open-end credit plan and sends the credit device to the
25 address specified in the application or otherwise delivers
26 the credit device in a manner specified in the application
27 or agreement signed by each applicant.

28 This paragraph does not apply to a creditor who does
29 not issue a credit card or other credit device in order to
30 obtain credit under the creditor's open-end credit plan.

31 (d) A creditor who is a lessor under a lease contract as
32 defined in Section 2985.7 shall provide the following
33 notice in English and Spanish in lieu of the notice
34 required by subdivision (a):

35

1 NOTICE TO COSIGNER

2
3 *NOTICE TO COSIGNER (Traducción en Inglés Se*
4 *Requiere Por La Ley)*
5

6 You are being asked to guarantee this lease. Think
7 carefully before you do. If the lessee doesn't pay, you will
8 have to. Be sure you can afford to pay if you have to, and
9 that you want to accept this responsibility.

10 You may have to pay up to the full amount owed on the
11 lease if the lessee does not pay. You may also have to pay
12 late fees or other collection costs, which increase this
13 amount.

14 The lessor can collect on the lease from you without
15 first trying to collect from the lessee. The lessor can use
16 the same collection methods against you that can be used
17 against the lessee, such as suing you, garnishing your
18 wages, etc. If this lease is ever in default, that fact may
19 become part of your credit record.

20 This notice is not the contract that makes you liable for
21 the lease obligation.

22
23
24 *AVISO PARA EL FIADOR (Spanish Translation*
25 *Required By Law)*
26

27 *Se le está pidiendo que garantice este arrendamiento.*
28 *Piénselo con cuidado antes de ponerse de acuerdo. Si el*
29 *arrendatario no paga, usted tendrá que pagar. Está*
30 *seguro de que usted podrá pagar si sea obligado a pagar*
31 *y de que usted desea aceptar la responsabilidad.*

32 *Si el arrendatario no paga, es posible que usted tenga*
33 *que pagar la suma total debida en el contrato de*
34 *arrendamiento, más los cargos por tardarse en el pago o*
35 *el costo de cobranza, los cuales aumentan el total de esta*
36 *suma.*

37 *La compañía arrendadora puede cobrarle a usted por*
38 *la suma debida en el arrendamiento, sin, primeramente,*
39 *tratar de cobrarle al arrendatario. Los mismos métodos de*
40 *cobranza que pueden usarse contra el arrendatario,*

1 *podrán usarse contra usted, tales como presentar una*
2 *demanda en corte, quitar parte de su sueldo, etc. Si alguna*
3 *vez no se cumpla con la obligación del arrendamiento, se*
4 *puede incluir esa información en la historia de credito de*
5 *usted.*

6 *Este aviso no es el contrato mismo en que se le echa a*
7 *usted la responsabilidad del arrendamiento.*

8

9 (e) “Regulation Z” has the meaning set forth in
10 Section 1802.18.

11 (f) The word “your” in the last sentence of the third
12 paragraph of the notice in English set forth in subdivision
13 (a) shall be italicized.

14 SEC. 3. Section 2985.7 of the Civil Code is amended
15 to read:

16 2985.7. (a) “Motor vehicle” means any vehicle
17 required to be registered under the Vehicle Code. *Motor*
18 *vehicle does not include any trailer which is sold in*
19 *conjunction with a vessel.*

20 (b) “Lessor” includes “bailor” and is a person who is
21 engaged in the business of leasing, offering to lease or
22 arranging the lease of a motor vehicle under a lease
23 contract.

24 For the purpose of this subdivision, “person” means an
25 individual, partnership, corporation, limited liability
26 company, estate, trust, cooperative, association or any
27 other legal entity.

28 (c) “Lessee” includes “bailee” and is a natural person
29 who leases, offers to lease or is offered the lease of a motor
30 vehicle under a lease contract.

31 (d) “Lease contract” means any contract for or in
32 contemplation of the lease or bailment for the use of a
33 motor vehicle, and the purchase of services incidental
34 thereto, by a natural person for a term exceeding four
35 months, primarily for personal, family or household
36 purposes, whether or not it is agreed that the lessee bear
37 the risk of the motor vehicle’s depreciation. Lease
38 contract does not include a lease for agricultural, business
39 or commercial purposes, or to a government or
40 governmental agency or instrumentality.

1 (e) “Regulation M” means ~~Part 213—(commencing~~
2 ~~with Section 213.1) of Title 12 of the Code of Federal~~
3 ~~Regulations~~; any rule, regulation, or interpretation
4 promulgated by the Board of Governors of the Federal
5 Reserve System under the federal Consumer Leasing Act
6 (15 U.S.C. Secs. 1667-1667e), and any interpretation or
7 approval issued by an official or employee of the Federal
8 Reserve System duly authorized by the board to issue
9 such interpretations or approvals.

10 (f) “Constant yield method” means the following:

11 (1) In the case of a periodic payment lease, the method
12 of determining the rent charge portion of each base
13 payment in which the rent charge for each computational
14 period is earned in advance by multiplying the constant
15 rate implicit in the lease contract times the balance
16 subject to rent charge as it declines during the scheduled
17 lease term. At any time during the scheduled term of a
18 periodic payment lease, the balance subject to rent
19 charge is the difference between the adjusted capitalized
20 cost and the sum of (A) all depreciation and other
21 amortized amounts accrued during the preceding
22 computational periods and (B) the first base periodic
23 payment.

24 (2) In the case of a single payment lease, the method
25 of determining the periodic earning of rent charges in
26 which the rent charge for each computational period is
27 earned in advance by multiplying the constant rate
28 implicit in the lease contract times the balance subject to
29 rent charge as it increases during the scheduled lease
30 term. At any time during the scheduled term of a single
31 payment lease, the balance subject to rent charge is
32 determined by subtracting from the residual value the
33 total rent charge scheduled to be earned over the term
34 of the lease contract and adding to the difference all rent
35 charges accrued during the preceding computational
36 periods.

37 (3) Periodic rent charge calculations are based on the
38 assumption that the lessor will receive the lease payments
39 on their exact due dates and that the lease does not end
40 before its scheduled termination date.



1 SEC. 4. Section 2985.71 of the Civil Code is repealed.

2 SEC. 5. Section 2985.71 is added to the Civil Code, to
3 read:

4 2985.71. (a) Any solicitation to enter into a lease
5 contract that includes any of the following items shall
6 contain the disclosures described in subdivision (b):

7 (1) The amount of any payment.

8 ~~(2) A statement of any capitalized cost reduction or~~
9 ~~other payment required prior to or at consummation or~~
10 ~~delivery.~~

11 ~~(3) A statement that no payment is required.~~

12 (2) *A statement of any capitalized cost reduction or*
13 *other payment required prior to or at consummation or*
14 *by delivery, if delivery occurs after consummation.*

15 (3) *A statement that no capitalized cost reduction or*
16 *other payment is required prior to or at consummation or*
17 *by delivery, if delivery occurs after consummation.*

18 (b) A solicitation to enter into a lease contract that
19 includes any item listed in subdivision (a) shall also
20 clearly and conspicuously state all of the following items:

21 (1) All of the disclosures prescribed by Regulation M
22 set forth in the manner required *or permitted* by
23 Regulation M, whether or not Regulation M applies to the
24 transaction.

25 ~~(2) The total of periodic payments.~~

26 ~~(3)~~

27 (2) The mileage limit after which mileage charges
28 may accrue and the charge per mile for mileage in excess
29 of the stated mileage limit.

30 ~~(4)~~

31 (3) The statement “Plus tax and license” or a
32 substantially similar statement, if amounts due for use tax,
33 license fees, and registration fees are not included in the
34 payments.

35 (c) *No solicitation to aid, promote, or assist directly or*
36 *indirectly any lease contract may state that a specific*
37 *lease of any motor vehicle at specific amounts or terms is*
38 *available unless the lessor usually and customarily leases*
39 *or will lease that motor vehicle at those amounts or terms.*

(d) A failure to comply with the provisions of this section shall not affect the validity of the leasing contract. No owner or employee of any entity, other than the lessor, that serves as a medium in which a lease solicitation appears or through which a lease solicitation is disseminated, shall be liable under this section.

SEC. 6. Section 2985.8 of the Civil Code is repealed.

SEC. 7. Section 2985.8 is added to the Civil Code, to read:

2985.8. (a) Every lease contract shall be in writing and the print portion of the contract shall be printed in at least eight-point type and shall contain in a single document all of the agreements of the lessor and lessee with respect to the obligations of each party.

(b) At the top of the lease contract, a title which contains the words "LEASE CONTRACT" or "LEASE AGREEMENT" shall appear in at least ~~twelve-point~~ 12-point bold type.

(c) Every lease contract shall disclose all of the following ~~in a clear and conspicuous manner~~:

(1) All of the information prescribed by Regulation M set forth in the manner required *or permitted* by Regulation M, whether or not Regulation M applies to the transaction.

(2) A separate statement labeled "Itemization of Gross Capitalized Cost" that shall appear immediately ~~following the disclosures required to be segregated by Regulation M. The "Itemization of Gross Capitalized Cost" shall include all of the following:~~ following or directly adjacent to the disclosures required to be segregated by Regulation M. The Itemization of Gross Capitalized Cost shall include all of the following and shall be circumscribed by a line:

(A) The agreed-upon value of the vehicle.

(B) The aggregate amount of premiums agreed to be included for policies of insurance.

(C) The aggregate amount charged for service contracts.

(D) Any outstanding prior ~~loan~~ credit or lease balance.

1 (E) An itemization by type and amount of other items
2 included in the “gross capitalized cost” disclosed
3 pursuant to Regulation M.

4 (3) The vehicle identification number of the leased
5 vehicle.

6 (4) A brief description of any trade-in vehicle and the
7 agreed-upon value thereof if the amount due at lease
8 signing or delivery is paid with a net trade-in allowance
9 or the “Itemization of Gross Capitalized Cost” includes
10 any outstanding prior ~~loan~~ credit or lease balance from
11 the trade-in vehicle.

12 (5) The fee, if any, to be retained by the lessor for
13 document preparation, which fee shall not exceed
14 forty-five dollars (\$45).

15 (d) *Every lease contract shall contain, in at least*
16 *eight-point bold type, above the space provided for the*
17 *lessee’s signature and circumscribed by a line, the*
18 *following notice: (1) Do not sign this lease before you*
19 *read it or if it contains any blank spaces to be filled in; (2)*
20 *You are entitled to a completely filled in copy of this lease;*
21 *(3) Warning—Unless a charge is included in this lease for*
22 *public liability or property damage insurance, payment*
23 *for that coverage is not provided by this lease.*

24 (e) *Every lease contract shall contain, in at least*
25 *eight-point bold type, on the first page of the contract and*
26 *circumscribed by a line, the following notice:*

27
28 ***THERE IS NO COOLING OFF PERIOD***
29

30 *California law does not provide for a “cooling off” or*
31 *other cancellation period for vehicle leases. Therefore,*
32 *you cannot later cancel this lease simply because you*
33 *change your mind, decided the vehicle costs too much, or*
34 *wish you had acquired a different vehicle. You may cancel*
35 *this lease only with the agreement of the lessor or for legal*
36 *cause, such as fraud.*

37
38 (f) *Every lease contract shall contain, in at least*
39 *eight-point bold type, the following notice: You have the*
40 *right to return the vehicle, and receive a refund of any*

1 *payments made if the credit application is not approved,*
2 *unless nonapproval results from an incomplete*
3 *application or from incorrect information provided by*
4 *you.*

5 (g) The lease contract shall be signed by the lessor and
6 lessee, or their authorized representatives, and an exact
7 copy of the fully executed lease contract shall be provided
8 to the lessee at the time of signing.

9 ~~(e)~~

10 (h) No motor vehicle shall be delivered under a lease
11 contract subject to this chapter until the lessor provides
12 to the lessee a fully executed copy of the lease contract.

13 ~~(f)~~

14 (i) The lessor shall not obtain the signature of the
15 lessee to a contract when it contains blank spaces to be
16 filled in after it has been signed.

17 (j) *This section shall only apply to lease contracts*
18 *entered into on and after January 1, 1998.*

19 SEC. 8. *Section 2986.2 of the Civil Code is repealed.*

20 ~~2986.2. Every lease contract shall contain, in at least~~
21 ~~eight-point bold type, above the space provided for the~~
22 ~~lessee's signature and circumscribed by a line, the~~
23 ~~following warnings which shall be signed or initialed by~~
24 ~~the lessee:~~

25 ~~(a) "Notice to the lessee: (1) Do not sign this~~
26 ~~agreement before you read it or if it contains any blank~~
27 ~~spaces to be filled in; (2) You are entitled to a completely~~
28 ~~filled in copy of this agreement; (3) If you default in the~~
29 ~~performance of your obligations under this agreement,~~
30 ~~the vehicle may be repossessed and you may be subject~~
31 ~~to suit and liability for the unpaid indebtedness~~
32 ~~evidenced by this agreement."~~

33

34 ~~"s/s _____."~~ _____
35 ~~lessee~~ _____

36

37 ~~(b) "Warning Unless a charge is included in this~~
38 ~~agreement for public liability or property damage~~
39 ~~insurance, payment for such coverage is not provided by~~
40 ~~this agreement."~~

1 “s/s _____.” _____
 2 lessee _____

3
 4 (e) ~~“Lessee has the right to return the vehicle, and~~
 5 ~~receive a refund of any payments made if the credit~~
 6 ~~application is not approved, unless nonapproval results~~
 7 ~~from an incomplete application or from incorrect~~
 8 ~~information provided by the lessee.”~~

9
 10 “s/s _____.” _____
 11 lessee _____

12
 13 (d) ~~“California law does not provide for a “cooling-off”~~
 14 ~~or other cancellation period for vehicle leases. Therefore,~~
 15 ~~you cannot later cancel this lease simply because you~~
 16 ~~change your mind, decide the vehicle costs too much, or~~
 17 ~~wish you had acquired a different vehicle. You may only~~
 18 ~~cancel this lease with the agreement of the lessor or for~~
 19 ~~legal cause, such as fraud.”~~

20
 21 “s/s _____.” _____
 22 lessee _____

23
 24 *SEC. 9. Section 2986.3 of the Civil Code is amended*
 25 *to read:*

26 2986.3. No lease contract shall contain any provision
 27 by which:

28 (a) A power of attorney is given to confess judgment
 29 in this state, or an assignment of wages is given; provided
 30 that nothing herein contained shall prohibit the giving of
 31 an assignment of wages contained in a separate
 32 instrument pursuant to Section 300 of the Labor Code.

33 (b) The lessee waives any right of action against the
 34 lessor or holder of the contract or other person acting on
 35 his behalf for any illegal act committed in the collection
 36 of payments under the contract or in the repossession of
 37 the motor vehicle.

38 (c) The lessee relieves the lessor from liability for any
 39 legal remedies which the lessee may have against the

1 lessor under the contract or any separate instruments
2 executed in connection therewith.

3 (d) The lessor or holder of the contract is given the
4 right to commence action on a contract under the
5 provisions of this chapter in a county other than the
6 county in which the contract was in fact signed by the
7 lessee, the county in which the lessee resides at the
8 commencement of the action, the county in which the
9 lessee resided at the time the contract was entered into
10 or in the county in which the motor vehicle ~~purchased~~
11 *leased* pursuant to such contract is permanently garaged.

12 *SEC. 10. Section 2986.4 of the Civil Code is amended*
13 *to read:*

14 2986.4. Any acknowledgment by the lessee of delivery
15 of a copy of a lease contract or purchase order and any
16 vehicle lease proposal and any credit statement which the
17 lessor has required or requested the lessee to sign, and
18 which ~~he~~ *the lessee* has signed, during the contract
19 negotiations, shall be printed or written in size equal to
20 at least 10-point bold type and, if contained in the
21 contract, shall appear directly above the space reserved
22 for the lessee's signature. The lessee's written
23 acknowledgment, conforming to the requirements of this
24 section, of delivery of a completely filled in copy of the
25 contract, and a copy of such other documents shall be a
26 rebuttable presumption of delivery in any action or
27 proceeding by or against a third party without knowledge
28 to the contrary when he *or she* acquired his *or her* interest
29 in the contract. If such third party furnishes the lessee a
30 copy of such documents, or a notice containing items set
31 forth in ~~subdivisions (a) to (l), inclusive,~~ *subdivision (c)*
32 of Section 2985.8, and stating that the lessee shall notify
33 such third party in writing within 30 days if he *or she* was
34 not furnished a copy of such documents, and no such
35 notification is given, it shall be conclusively presumed in
36 favor of such a third party that copies of ~~such~~ *the*
37 documents were furnished as required by this chapter.

38 *SEC. 11. Section 2986.13 of the Civil Code is amended*
39 *to read:*

1 2986.13. (a) Any payment made by a lessee to a lessor
2 pending the execution of a lease contract shall be
3 refunded to the lessee in the event the lease contract is
4 not executed.

5 (b) In the event of breach by the lessor of a lease
6 contract where the lessee leaves his or her motor vehicle
7 with the lessor as a trade-in downpayment and the motor
8 vehicle is not returned by the lessor to the lessee for
9 whatever reason, the lessee may recover from the lessor
10 either the fair market value of the motor vehicle left as
11 a downpayment or its value as stated in the lease contract,
12 whichever is greater. The recovery shall be tendered to
13 the lessee within five business days after the breach.

14 (c) The remedies of the buyer provided for in
15 subdivision (b) are nonexclusive and cumulative and
16 shall not preclude the lessee from pursuing any other
17 remedy which he or she may have under any other
18 provision of law.

19 ~~SEC. 9.—~~

20 *SEC. 12. Section 2987 is added to the Civil Code, to*
21 *read:*

22 *2987. (a) A lessee has the right to terminate a lease*
23 *contract at any time prior to the scheduled expiration*
24 *date specified in the lease contract. Except as provided in*
25 *subdivision (f), all of the following subdivisions of this*
26 *section apply in the event of an early termination.*

27 *(b) The lessee's liability shall not exceed the sum of the*
28 *following:*

29 *(1) All unpaid periodic lease payments that have*
30 *accrued up to the date of termination.*

31 *(2) All other amounts due and unpaid by the lessee*
32 *under the lease contract, other than excess wear and*
33 *mileage charges and unpaid periodic lease payments.*

34 *(3) Any charges, however denominated, that the*
35 *lessor or holder of the lease contract may assess in*
36 *connection with termination not to exceed in the*
37 *aggregate the amount of a reasonable disposition fee, if*
38 *any, disclosed in the lease contract and assessed upon the*
39 *scheduled termination of the lease contract.*

1 (4) In the event of the lessee's default, reasonable fees
2 paid by the lessor or holder for reconditioning of the
3 leased vehicle and reasonable and necessary fees paid by
4 the lessor or holder, if any, in connection with the
5 repossession and storage of the leased vehicle.

6 (5) (A) The difference, if any, between the adjusted
7 capitalized cost disclosed in the lease contract and the
8 sum of (i) all depreciation and other amortized amounts
9 accrued through the date of early termination, calculated
10 in accordance with the constant yield method, and (ii)
11 the realized value of the vehicle as provided in
12 subdivision (c);

13 (B) If the lessee maintains insurance on the leased
14 vehicle as required in the lease contract and the vehicle
15 is declared a total loss by the insurer as a result of theft or
16 damage, the amount of any applicable insurance
17 deductible owed by the lessee and the proceeds of the
18 settlement of the insurance claim in lieu of the amount
19 described in subparagraph (A).

20 (c) Subject to subdivision (d), the realized value of the
21 vehicle used to calculate the lessee's liability under
22 paragraph (5) of subdivision (b) shall be either (1) a
23 value determined on appraisal as provided in Regulation
24 M if the lessee elects to have such an appraisal conducted,
25 or if no appraisal is conducted, (2) the higher of (A) the
26 price paid for the vehicle upon disposition, or (B) any
27 other amount established by the lessor or the lease
28 contract.

29 (d) (1) The lessor or holder of the lease contract shall
30 act in good faith and in a commercially reasonable
31 manner in connection with the disposition of the vehicle.

32 (2) In addition to the requirements of paragraph (1),
33 any disposition of the vehicle shall be preceded by a
34 notice complying with both of the following:

35 (A) The notice shall be in writing and given by the
36 holder of the contract to all persons liable on the lease
37 contract at least 10 days in advance of any disposition. The
38 notice shall be personally served or shall be sent by
39 certified mail, return receipt requested, or first-class mail,
40 postage prepaid, directed to the last known address of

1 each person liable on the contract. One notice is sufficient
2 if the persons liable on the contract are married to each
3 other and the most recent records of the holder of the
4 lease contract indicate that they reside at the same
5 address.

6 (B) The notice shall clearly and conspicuously set forth
7 (i) the time and place of any public sale or the time on or
8 after which a private sale or other intended disposition is
9 to be made, (ii) an itemization of all amounts claimed
10 under paragraphs (1) to (4), inclusive, of subdivision (b),
11 (iii) the amount of the difference between the adjusted
12 capitalized cost and the sum of all depreciation and other
13 amortized amounts paid through the date of early
14 termination as provided in paragraph (5) of subdivision
15 (b), (iv) the total of these amounts, (v) a statement that
16 the lessee will be liable for the difference between the
17 total amount and either the price received for the vehicle
18 upon disposition, a greater amount established by the
19 lessor or the lease contract, or the appraised amount as
20 provided in this subparagraph, and (vi) a statement that,
21 not later than three days before the scheduled sale of the
22 vehicle, the lessee has the right to obtain, at the lessee's
23 expense, a completed professional appraisal by an
24 independent third party acceptable to the lessor or
25 holder of the lease that shall establish the final and
26 binding value of the vehicle for the purpose of
27 determining the lessee's liability.

28 (3) The lessee shall have no liability under subdivision
29 (b) if the lessor or holder of the lease contract does not
30 comply with this subdivision.

31 (4) This subdivision does not apply when the lessee
32 maintains insurance on the leased vehicle as required in
33 the lease contract and the vehicle is declared a total loss
34 by the insurer as a result of theft or damage.

35 (e) The lessor or holder of the lease contract shall
36 credit any security deposit or advance rental payment
37 held by the lessor or holder of the lease contract against
38 the lessee's liability under the lease contract as limited by
39 this section. The portion of a security deposit or advance
40 rental payment, if any, remaining after the lessee's

1 liability under the lease contract as limited by this section
2 has been satisfied shall be returned to the lessee within 30
3 days of the satisfaction of the obligation.

4 (f) Subdivisions (b) to (d), inclusive, do not apply if,
5 prior to the scheduled expiration date specified in the
6 lease contract, the lessee terminates the lease and
7 purchases the vehicle or trades in the vehicle in
8 connection with the purchase or lease of another vehicle.
9 In such an event, the selling price of the leased vehicle,
10 exclusive of taxes and other charges incidental to the sale,
11 shall not exceed the sum of the following and shall relieve
12 the lessee of any further liability under the lease contract:

13 (1) All unpaid periodic lease payments that have
14 accrued up to the date of termination.

15 (2) All other amounts due and unpaid by the lessee
16 under the lease contract, other than excess wear and
17 mileage charges and unpaid periodic lease payments.

18 (3) Any charges, however denominated, that the
19 lessor or holder of the lease contract may assess in
20 connection with termination of the lease contract and the
21 acquisition of the vehicle, not to exceed in the aggregate
22 the amount of a reasonable purchase option fee, if any,
23 disclosed in the lease contract and assessed upon the
24 scheduled termination of the lease contract.

25 (4) The adjusted capitalized cost disclosed in the lease
26 contract less all depreciation and other amortized
27 amounts accrued through the date of early termination,
28 calculated in accordance with the constant yield method.

29 (g) If the lessee terminates a lease contract,
30 voluntarily returns possession of the vehicle to the lessor,
31 and timely pays all sums required under the lease
32 contract as limited by this section, the lessor or holder
33 shall not provide any adverse information concerning the
34 early termination to any consumer credit reporting
35 agency.

36 (h) This section shall only apply to lease contracts
37 entered into on and after January 1, 1998.

38 SEC. 13. Section 2989.2 of the Civil Code is amended
39 to read:

1 2989.2. ~~(a) At the termination or expiration of a lease,~~
2 ~~when~~ *Where the lessee is to bear the risk of the motor*
3 *vehicle's depreciation upon the scheduled expiration of*
4 *the lease contract, the following applies:*

5 (a) When disposing of a vehicle or obtaining cash bids
6 for the purpose of setting the fair market value of a
7 vehicle, the lessor shall act in a commercially reasonable
8 manner in the customary market for such vehicle.

9 (b) Any provision in a lease contract to the contrary
10 notwithstanding, at least 10 days written notice of intent
11 to sell such motor vehicle shall be given by the ~~lessor to~~
12 ~~the lessee~~ *holder of the contract to all persons liable on*
13 *the lease contract*, unless the lessor and lessee have
14 agreed in writing to the amount of the lessee's liability
15 under the lease contract after the lessee returns the
16 motor vehicle to the lessor, or the lessee has satisfied the
17 lease contract obligations by payment to the lessor. The
18 notice shall be personally served or shall be sent by
19 certified mail, return receipt requested, directed to the
20 address of the lessee shown on the contract, unless the
21 lessee has notified the holder in writing of a different
22 address. The notice shall set forth separately any charges
23 or sums due and state that the lessee will be liable for the
24 difference between the amount of liability imposed on
25 the lessee at the expiration of the lease term and the
26 actual cash value of the motor vehicle when it is sold. The
27 notice shall also state that the lessee has the right to
28 submit a cash bid for the purchase of the vehicle.

29 *SEC. 14.* No reimbursement is required by this act
30 pursuant to Section 6 of Article XIII B of the California
31 Constitution because the only costs that may be incurred
32 by a local agency or school district will be incurred
33 because this act creates a new crime or infraction,
34 eliminates a crime or infraction, or changes the penalty
35 for a crime or infraction, within the meaning of Section
36 17556 of the Government Code, or changes the definition
37 of a crime within the meaning of Section 6 of Article
38 XIII B of the California Constitution.

39 Notwithstanding Section 17580 of the Government
40 Code, unless otherwise specified, the provisions of this act

1 shall become operative on the same date that the act
2 takes effect pursuant to the California Constitution.

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